

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON EDEN DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Eden District Municipality set out on pages 11 to 98, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Eden District Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 39 to the financial statements is a defendant in a number of lawsuits and claims by staff that have not been finalised. The maximum potential liability is estimated at R69 173 532. The ultimate outcome of these lawsuits and claims could not be determined at year-end.

Restatement of corresponding figures

9. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 30 June 2012 in the financial statements of Eden District Municipality at, and for the year ended, 30 June 2011.

Material impairments

10. As disclosed in notes 19 and 20, the municipality raised a provision of doubtful debts of R3 935 341 (74,9%) for exchange receivables and R16 379 275 (89,5%) for non-exchange receivables.

Material losses

14. As disclosed in note 19 bad debts written off of R12 792 599 due to debt owed to the municipality assessed as no longer recoverable.

Additional matter

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

16. The supplementary information set out on pages 98 to 101 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 17 to 39 of the annual report.
19. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPP)*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

20. The material finding is as follows concerning the reliability of the information.

Reliability of information

21. The *FMPP* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 78% of the actual reported indicators relevant to the Community Services were not accurate when compared to source information. This was due to a lack of monitoring by senior management.

Compliance with laws and regulations

22. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Procurement and contract management

23. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
24. Awards were made to providers who are persons in service of other state institutions or whose directors are persons in service of other state institutions, in contravention of SCM regulations 44.

Expenditure management

25. The accounting officer did not take effective steps to prevent irregular expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act

Internal control

26. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

27. The accounting officer did not take adequate steps to mitigate the risk of non compliance in the supply chain unit by evaluating the supply chain practices of the municipality against the requirements of the legislation.
28. The accounting officer did not perform adequate monitoring processes to ensure that the performance reported in the annual performance report could be verified or agrees to the supporting documentation.

Financial and performance management

29. Control measures put in place to achieve compliance with supply chain processes were not adhered to by officials resulting in non compliance with the supply chain management regulations.
30. Management did not adequately perform their responsibilities when reporting performance, this resulted in the performance report being unreliable as reported in paragraph 17 of this report.
31. Management did not adequately perform their responsibilities when reporting performance information. This resulted in the performance report being unreliable as reported in paragraph 21 of this report.

Auditor-General

Cape Town

30 November 2012



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

SECTION 6: CONCLUSION

95. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely



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30 November 2012

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